



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DIVISION OF BOND FINANCE
SUITE 1600 JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0273
PHONE (615) 747-5370
FAX (615) 741-5986**

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Investor Update

Closing Fiscal Year 2001-2002

The General Assembly authorized in Chapter 825 of the Public Acts of 2002 the transfer of certain statutory reserves to balance the FY 2001-2002 budget. With these transfers, the State's Rainy Day Fund will have a balance of approximately \$85 million at June 30, 2002.

New Revenue and Budget Approved

On Wednesday July 3, 2002, the General Assembly of the State of Tennessee approved the annual budget. Governor Don Sundquist signed the bill into law on Thursday, July 4, 2002.

The passage of the budget was preceded by the passage of a revenue bill raising an estimated \$923,235,000 in new revenue during fiscal year 2002-2003. The revenue sources and estimated new revenue to be generated in FY 2002-2003 and FY 2003-2004 are:

TAX CHANGE	FY 2002-2003	FY 2003-2004
Decouple state excise tax from federal regulations	\$50,000,000	\$50,000,000
Increase excise tax from 6% to 6.5% * **	77,400,000	51,600,000
Increase wholesale tax on cigarettes by 7-cents a pack*	32,818,000	34,245,000

Increase the wholesale tax on other tobacco products by 10%*	678,500	708,000
Increase the wholesale tax on beer by 10%*	1,487,333	1,552,000
Increase the wholesale tax on wine by 10%*	596,083	622,000
Increase the wholesale tax on spirits by 10%*	2,172,542	2,267,000
Increase sales tax as a result of including tax in retail price**	2,643,000	2,750,000
Coin operated amusement tax effective 9/01/02	3,375,000	4,050,000
Impose sales tax on vending machine sales*	16,675,000	17,400,000
Increase local business taxes by 50% with the state retaining the increase	63,333,000	63,333,000
Increase single article cap from \$1,600 to \$3,200. Increase taxed @ 2.75%*	38,613,167	40,292,000
Commercial vehicle registration fee changes effective 10/01/02	8,101,000	10,814,000
Increase professional privilege tax to \$400 excluding state employees from tax	24,946,200	24,946,200
Increase in state sales tax rate from 6% to 7% (1% increase excludes food)*	600,395,833	626,500,000
Total estimated increase in state revenues	\$923,234,658	\$931,079,000

*Effective date of implementation is July 15, 2002

**Corporations whose business year is the calendar year will pay the increased excise tax beginning in September 2002 for the previous quarter creating additional revenue to the State in calendar year 2002, fiscal year 2002-2003.

There is an increase in recurring state expenditures of \$1,258,000 and an increase in one-time expenditures of \$704,000 to implement the provisions of the act.

With the passage of the operating budget, 22,000 furloughed state employees are returning to work.

The new revenue is appropriated as follows:

- \$755 million will be used to fund services at last year's level;
- \$40 million will be spent for pay raises beginning January 1, 2003;
- \$20 million will be deposited into the State's Rainy Day Fund;
- \$42.2 million will be used to restore certain grants;
- \$28 million will be spent on capital maintenance;
- \$2.5 million for boll weevil eradication grants;
- An unspecified amount to compensate state employees who took vacation time while on furlough during the partial shutdown earlier in the week;

- \$1.258 million to implement the new tax legislation, plus \$704,000 in one-time expenditures;
- \$400,000 to fund a 15-member tax-study commission whose work is to be completed by July 1, 2004.

Capital Budget

The General Assembly also passed legislation authorizing the issuance of \$127,265,000 in General Obligation debt. The authorization includes:

- \$47,165,000 for general purpose capital improvements and capital maintenance;
- \$3,100,000 for improvements to state office buildings through the Facilities Revolving Fund and;
- \$77,000,000 to the Department of Transportation for various highway and other transportation funds.

It should be noted that no bonds have been issued for transportation purposes in the past fifteen years. However, one cannot assume that this practice will continue into the future.

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